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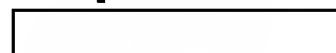


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State Dept. review completed

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PORTUGAL

Anti-Communists in the Portuguese military appear to be in a stronger position following the rebellion yesterday by leftist paratroopers.

According to latest reports, government forces have retaken the three air bases and the Lisbon region air headquarters that were occupied by the rebels. The mutinous paratroopers, however, regained control over their home air base in Tancos, some 77 miles north of the capital, after temporarily losing it to loyalist forces. Radio and television stations taken over by leftist military groups yesterday were cut off the air by the government, which substituted programs originating in Porto.

Backed by several members of the Revolutionary Council—including a subdued Otelo de Carvalho—President Costa Gomes last night declared that the Lisbon military region was under a state of seige. He ordered a midnight-to-six curfew and banned the publication of all newspapers in the region today.

The paratroopers' rebellion was apparently planned in advance, but not widely coordinated with other leftist military or civilian groups. A few leftist soldiers tried to use the Revolutionary Council's reaffirmation of Carvalho's removal as head of the Lisbon military region to rally additional support, but the paratroopers themselves focused only on calling for the removal of anti-Communist air force officers on the Revolutionary Council and the ouster of air force Chief of Staff Morais da Silva.

Yesterday morning, paratroopers succeeded in gaining entry into the three air bases and the Lisbon air region headquarters, apparently with the assistance of the extremist organization "Soldiers United Will Win." There were unconfirmed reports that two other bases had declared for the rebels, but pilots at the affected bases apparently escaped to the north with most combat aircraft.

Leftist officers of some Lisbon-based support units were also caught up in the move and aided in taking control of Lisbon radio and television stations. No other units joined in the effort, although the Lisbon light artillery unit reportedly took up defensive positions on highways leading north from the capital.

Despite broadcast pleas for leftists and workers to come into the streets to support the paratroopers, the only significant civilian participation was by anti-Communists at Monte Real, some 75 miles north of Lisbon, where they reportedly assisted in recapturing the local base from the rebels.

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The Communists' failure to join in the rebellion has prompted Labor Minister Tomas Rosa to speculate that the party may have encouraged the feeble effort in the hope it might spark a counter coup from the right. The Communists presumably reasoned that the rightists would meet swift resistance and the Communists would be able to reclaim some popular support.

The government has yet to reassert control throughout the Lisbon region. The effective performance of the loyal commando regiment, however, will probably discourage leftist units from trying to regain the initiative soon. The Communists must view the events of yesterday as a reversal, but the party still has most of its political assets.

Anti-Communists in the military, as well as the non-Communist political parties, are in a strong position to exploit the incident, just as the left exploited the abortive rightist coup last March 11. The campaign to purge radical leftist officers from the military should be given a strong boost.

Whether the anti-Communists are prepared to follow through, however, is another question. President Costa Gomes appears to have read the trend yesterday in time to side with the stronger force, but he prefers a balance of forces and may try to rein in any group that seeks to capitalize on the situation.

The threat remains that rightists may make a move that would confuse the situation. Exiles in Spain were apparently not ready to act during the tense hours yesterday. Similarly, there was no effort yesterday by separatists in the Azores to take advantage of the distraction caused by the rebel paratroopers. Either group still could act in a way that might ultimately aid the left.

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SPAIN

King Juan Carlos' initial efforts have been primarily aimed at wooing the military in the apparent hope that firm support in the armed forces will strengthen his hand in the political sector.

US defense attaches in Madrid report that the reaction of the Spanish military to the King has been enthusiastic so far. Juan Carlos assumed the rank of captain general—the same rank Franco held—and took his oath as king in uniform. In addition to stressing the importance of the military in his accession speech, the King addressed a special message to the armed forces. He reiterated the role of the military as the guarantor of the fundamental laws, noted especially the military contribution in Spanish Sahara, and pledged to work closely with them. The formal ceremony on Thursday honoring the King is expected to include a military review to demonstrate military loyalty to the head of state.

While giving tentative signs that some degree of political liberalization will eventually emerge in Spain, Juan Carlos is also paying attention to Franco's old supporters. Having angered some elements of the far right by failing to mention Franco's National Movement in his accession speech, the King moved to placate them by giving his first official audience to the National Confederation for Veterans, whose members include many ultrarightists.

The Catholic Church in Spain has offered its support to the King and called for evolutionary change. This has been the message of proclamations by the president of the Bishops' Conference and the archbishop of Barcelona, as well as in the funeral oration given by the cardinal primate.

The initial reaction to the King among the political opposition has been mixed. Some oppositionists expressed disappointment that the King did not announce specific steps toward liberalization or an immediate amnesty for political prisoners in his accession speech. Christian Democratic leader Ruiz Gimenez, however, said that he thought the King said as much as he could before the Cortes, which is dominated by right-wingers who would have been affronted by liberalizing gestures on the eve of Franco's burial. Felipe Gonzalez, leader of the principal Socialist

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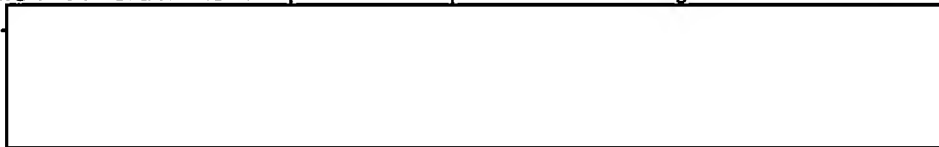
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party, has said he will give the King a month to make clear his intentions for a democratic transformation. On the other hand, Santiago Carrillo and some of his colleagues in the Communist-dominated Democratic Junta coalition group called the King's speech unacceptable.

Perhaps to counter this reaction, the King last night announced a general amnesty that will reduce prison sentences on a sliding scale. Prison terms for terrorist acts or monetary crimes such as forgery will not be reduced. More significant, all death sentences will be commuted for crimes, including terrorism, committed before Juan Carlos became King.

An indication that the present calm in Spain may not last came when the mayor of a small Basque town was assassinated on Monday, apparently by members of the Basque Fatherland and Liberty group. A communique issued later warned that similar acts would follow because "the Spanish state has not changed."

The terrorist group may have acted in the fear that the recent gestures made by Juan Carlos and the government to accommodate regional aspirations will diminish the appeal of terrorism. The terrorists probably hope to resume the cycle of violence and repression in order to keep alive Basque resentment against the central government.



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LEBANON

Prime Minister Karami in the past two days has intensified his attacks on President Franjiyah and Interior Minister Shamun, the two key Christians in the Lebanese government. Karami, a Muslim, has said he can do nothing to restore civil order in the face of their "hostile attitude."

In a speech to parliament yesterday, the Prime Minister condemned Christian leaders in general for their refusal to allow political reform and the references some of them have made to the possible partition of Lebanon. Karami acknowledged that his government's failure to restrict the flow of arms to all combatants had contributed to the resumption of heavy fighting, but defended his continued refusal to call in the Lebanese army.

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Shamun acknowledged publicly yesterday that his militia is involved in the fighting. He told parliament that the private Christian militias have taken matters into their own hands because government security forces are inadequate to restore order or to prevent "destructive elements" from overthrowing the government.

The unrestrained activity of Shamun's group apparently embarrassed even the right-wing Phalangists. Party leader Jumayyil has tried to calm Muslim tempers by playing up the importance of the national dialogue committee, and his party has issued a statement urging an end to "ideological quarrels."

The two largest Christian political parties, the Phalangists and the National Liberals, share the same long-range goals, but their political and military leaders often have difficulty cooperating. The larger and sometimes better disciplined Phalangist militia is at the moment upset with the National Liberals for allegedly attempting to establish footholds in Phalangist-controlled areas of Beirut. A dispute yesterday over a roadblock in a Beirut suburb grew into an armed clash between the two.

The fighting between the Christian militias and the Muslim leftists is still heavy and widespread, although it has not yet reached the level of late October. This time, there has been sporadic fighting but no sustained clashes in the hotel district.

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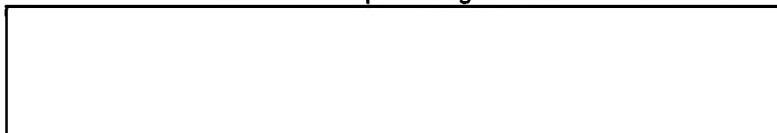
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According to press reports yesterday, Palestinian forces in one refugee camp used their antiaircraft guns to shell a Christian enclave in Beirut. The large Palestinian militias that control security in the camps have infrequently used this tactic to counter unusually heavy rocket and mortar fire directed at the camps or adjoining Muslim areas.



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Syria may soon revive its efforts to mediate the Lebanese dispute as a result of the increased fighting and reports from Beirut that Egypt may attempt to negotiate a settlement. According to press reports, Egyptian Foreign Minister Fahmi—who earlier this month called for a three-month truce—is planning to travel to Beirut on a “conciliatory mission.”



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USSR

We expect the Soviet hard-currency trade deficit in 1975 to be close to \$5 billion, considerably higher than earlier estimates. A weak gold market this fall has forced Moscow to borrow heavily in Western money markets, and the Soviets are already lining up credits for 1976. If Soviet exports continue to be sluggish, Moscow may be forced to trim imports some time next year.

The USSR has continued to increase imports at a time when growth in its exports has been limited by recession in the West. Total imports for 1975 are estimated at \$12.8 billion. In the first nine months of the year, imports from its six major Western trading partners were running 58 percent above last year. Imports of machinery and equipment are up about 70 percent over last year's \$2.3 billion, and may reach \$4 billion in 1975. Imports of grain will be about \$1 billion—roughly double the 1974 figure. Steel purchases may also reach record levels.

Soviet hard-currency exports probably will rise by no more than 5 percent, to an estimated \$8.1 billion. Exports to the USSR's six major Western trading partners in the first eight months of this year were down 6 percent from the same period last year. We expect a considerable rise in the final four months because of reduced Soviet prices on diamonds, platinum, and palladium; stepped-up exports of Soviet oil; and the gradual revival in economic activity in the West.

The USSR will finance its 1975 deficit through a combination of Western credits, gold sales, revenues from shipping and tourism, and a probable reduction in foreign exchange holdings. Arms sales should provide substantial earnings this year—perhaps \$300 million in hard currency.

The USSR may earn about \$1 billion from gold sales in 1975. Confirmed and rumored sales through July totaled 125 tons, valued at roughly \$675 million. We believe that Moscow continued to sell gold in August—perhaps 20 tons worth \$100 million. Sales probably were small in September when gold prices plunged. The USSR may have reentered the market in October when prices partly recovered and appeared to stabilize at approximately \$145 per troy ounce. Sales of 20 tons per month in the last quarter, a reasonable prospect, would yield Moscow another \$275 million.

From \$2.5 billion to \$3 billion of the hard-currency deficit will probably be financed by a combination of Soviet borrowing in the West and a reduction in foreign exchange holdings. The USSR appears to have secured adequate financing to meet this year's obligations.

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Soviet efforts to raise loans in Europe and in the US have shown a marked upswing since midyear, probably aimed at meeting next year's anticipated obligations. Grain imports, judging from purchases already made or anticipated, will amount to between \$3 and \$4 billion in 1976.

The size of next year's deficit will depend largely on the ability of the Soviet Union to stimulate hard-currency exports to the West. Recent discussions indicate an increase in Soviet oil exports in 1976, and signed contracts call for a sizable increase in Soviet natural gas deliveries to Western Europe. Moscow can also be expected to intensify current efforts to boost export earnings by shaving prices and pressuring Western governments to correct current trade imbalances.

Use of Eurocurrency borrowing for grain purchases may reduce Soviet access to the Eurocurrency market to finance capital goods purchases. Moscow may be forced to pay higher rates for Eurocurrency loans and be more selective in its Eurodollar borrowing. As a result, Moscow may push for even larger commitments from Western governments for subsidized credit lines to cover Soviet purchases in the 1976-1980 period.

Soviet medium- and long-term debt will grow substantially during 1975-76 as a result of the massive borrowing—perhaps to more than \$7 billion by the end of 1975 and to nearly \$10 billion by the end of 1976.

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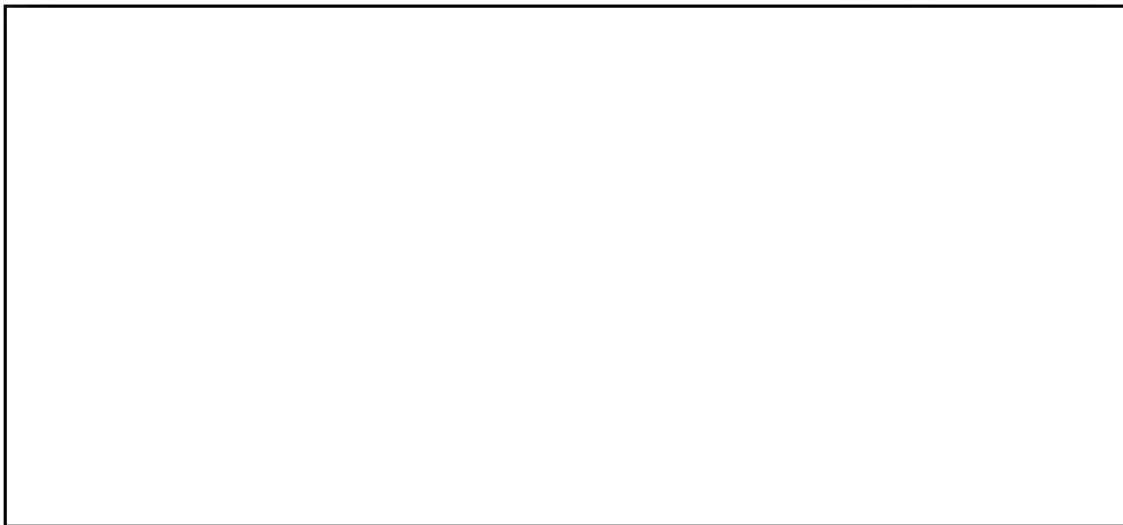
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CYPRUS

French Foreign Minister Sauvagnargues will meet today with the Greek and Turkish foreign ministers—who are in Paris for a Council of Europe meeting—in an effort to revive the moribund Cypriot intercommunal talks. The French initiative is a follow-up to President Giscard's visit to Athens and Sauvagnargues' visit to Ankara earlier this fall.

Sauvagnargues is likely to find the Greeks in favor of resuming the negotiations now that the UN General Assembly has favorably considered their case. Cypriot President Makarios declared his readiness on Monday to resume intercommunal talks on the basis of the UN resolution which, among other things, called for the removal of foreign troops from Cyprus "without further delay."

The Turks, however, are piqued at the UN's treatment of their case, and they will be reluctant to agree to an early resumption of the talks. Ankara nevertheless has again rebuffed Turkish Cypriot leader Denktash, who has called for a declaration of independence for the Turkish Cypriot zone. Turkey will probably veto his threat to oust UN forces from the zone.



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UK-ICELAND

London's decision to send naval vessels to Icelandic waters will almost certainly increase the likelihood of incidents at sea, and dim hopes for an early renewal of negotiations on a fishing agreement.

Confrontations between Icelandic coast guard and Royal Navy ships will further embitter public opinion. There may be some anti-NATO spillover, with opponents of a fishing agreement arguing that Iceland should leave the alliance if its members refuse to support the country on this vital national issue. The worsening political climate could also endanger the recently concluded fishing agreement with West Germany that was scheduled to be debated yesterday in the Icelandic parliament.

The decision to send three frigates into the area came after British fishermen threatened over the weekend to abandon Icelandic waters if they did not receive naval protection. Icelandic patrol boats have engaged in various harassing actions and cut the lines of six British trawlers in the last 11 days.

Negotiations between Iceland and Britain collapsed last week after the two sides were unable to agree on the size of the British catch. London wants an annual catch of 110,000 tons, and Reykjavik has refused to budge beyond 65,000 tons. The last round of talks was complicated by the personality of British negotiator Hattersley, whom the Icelanders found abrasive. A Foreign Office spokesman indicated that Hattersley is not the government's regular negotiator, but stopped short of saying that another official would take over for the British if and when talks resume.



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FINLAND

President Kekkonen yesterday asked Finland's caretaker government to remain in office after repeated attempts to form a majority government had failed.

Kekkonen appointed former governor Martti Miettunen on October 29 to form a broad-based majority government. The attempt failed because the Social Democrats and the Communists refused to participate. Both the Social Democrats and the Center Party subsequently declined to put together minority governments.

Kekkonen had little choice but to ask the current non-political government headed by Keijo Liinamaa to stay on. He had wanted a majority coalition, including the Social Democrats and the Communists, that would have had the necessary parliamentary backing to make the difficult decisions on the country's economic problems. After a poor election performance in September, however, the Social Democrats decided they needed more time to reorganize. The Communists are deeply divided and would rather remain in opposition than assume a share of responsibility for enacting difficult economic legislation.

The Liinamaa government is in no position to adopt tough measures to deal with the country's pressing economic problems. It will fall to a successor government to reduce inflation—now running at an annual rate of 18 percent—and cut the trade deficit of \$2 billion.

There is little indication that an election will be held within the next few months. Most parties would like a breather from the current political turmoil. The next serious effort to form a coalition based on the present parliament may not come until February, and some Finns speculate a "political" government may not emerge until next fall.

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ANGOLA

Communist support for the Soviet-backed Popular Movement for the Liberation of Angola is increasing.

Brigadier General Julio Casas, a deputy minister of Cuba's armed forces, is reportedly in Angola, probably to direct logistic support for the Cuban force that may now number an estimated 3,000 personnel. He served on Raul Castro's staff in the fight against Batista and has had numerous logistic assignments with the Cuban military since the early 1960s. Other ranking officers may also be in Africa. Cuban publications have reported changes in seven positions in the Armed Forces Ministry since September, including the replacement of Casas as chief of services. Each of Cuba's three army commanders was replaced during the fall. One or more of them may have been sent to Africa.

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RHODESIA

Prime Minister Ian Smith and Joshua Nkomo, the leader of a major faction of Rhodesian nationalists, may soon publicly sign a "declaration of intent" to engage in early substantive negotiations on a possible settlement of the Rhodesian question.

The declaration apparently would incorporate an agreement on procedural matters, including immunity for nationalists participating in settlement talks. A conference at Victoria Falls last August between Smith and a broad coalition of nationalists broke down over Smith's refusal to grant immunity from detention to all the nationalist leaders.

Both Nkomo and Smith have stated publicly that they have made progress in their private talks over the past several weeks.

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According to [redacted] the US embassy in Pretoria, the two leaders were planning to sign the declaration when Smith returns to Salisbury from his current South African vacation on December 2. Nkomo is now pressing, however, for an earlier signing—this Friday or even sooner—and hopes the South Africans will persuade Smith to agree.

With word of the procedural agreement beginning to leak out, Nkomo is anxious to deny rival nationalists such as Bishop Muzorewa and Ndabaningi Sithole time to mount a campaign against it before it is even surfaced. Sithole has already denounced Nkomo for selling out Rhodesia's blacks.

Smith is now said to be ready to grant immunity to negotiators named by Nkomo. The Prime Minister apparently believes—there may indeed be an understanding—that Nkomo will try to broaden his support by inviting Muzorewa and his followers to participate in the talks, but will exclude Sithole, who is anathema to Smith.

Following his recent talks with Smith, Nkomo has been seeking support for the declaration from the four African presidents who have been trying to arrange a Rhodesian settlement in collaboration with South African Prime Minister Vorster. Nkomo apparently can count on the backing of Zambian President Kaunda and Botswanan President Khama. He reportedly secured the agreement of Tanzanian President Nyerere, who has been sympathetic to Muzorewa and Sithole, not to oppose efforts to negotiate a peaceful settlement.

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Yesterday, Nkomo was due in Lourenco Marques to try to get similar assurances from Mozambican President Machel, who also favors Muzorewa and Sithole.

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CHINA

A strongly worded *People's Daily* article yesterday is tantamount to an open challenge of North Vietnamese occupation of the Spratly Islands.

Much of the article was devoted to a justification of China's claim to "indisputable sovereignty" over all islands in the South China Sea.

Hanoi is not specifically mentioned in the article, but it noted that "many of the islands" are still not in Chinese hands, an obvious reference to Vietnamese occupation of the Spratlys. Emphasizing the importance China attaches to its claim, the article linked Peking's determination to "liberate" Taiwan with its demand that all islands in the South China Sea be returned to Chinese control.

The issue of sovereignty over the islands has troubled Sino - North Vietnamese relations since January of last year when China took over the South Vietnamese - controlled Paracel Islands, 500 miles north of the Spratlys. The dispute assumed greater importance to Peking last spring when the North Vietnamese took control of several of the Spratlys from the former Saigon government.

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VIETNAM

Vietnamese propaganda attacks against Thailand are again mounting as Hanoi presses its demand that Bangkok abandon cooperation with the US on security matters.

A recent Vietnamese broadcast, for example, has labeled as "nonsense" Foreign Minister Chatchai's recent condemnation of Hanoi's public support for the Lao communists during last week's Thai-Lao border clashes. The broadcast maintained that Bangkok, by attempting to connect Hanoi with the clashes, was seeking to justify continued Thai "collusion" with the US.

The North Vietnamese recently have gone well beyond their earlier demands for the return of aircraft flown to Thailand during the last stages of the Vietnam war by now publicly pressing Bangkok to end U-2 flights from Thailand and remove the vestiges of the US military presence there.

Foreign Minister Chatchai's talks in Washington will hit on some of these issues, and the North Vietnamese obviously are interested in driving their message home at this time.



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NEW ZEALAND

The outcome of New Zealand's triennial national election on Sunday will probably be close. Polls show the Labor government has narrowed the opposition National Party's strong early lead.

The depressed economy has been almost the sole campaign issue, but the contrasting styles of the rival party leaders, Labor Prime Minister Rowling and National Party leader Muldoon, have made personalities a key factor.

The Nationals are banking on widespread concern over economic problems to restore them to power. Although New Zealand has been less affected than many countries by world economic difficulties, New Zealanders have been receiving lower prices for agricultural exports and resent the current reduction in their accustomed prosperity. National Party leaders blame the Labor government for the state of the economy and accuse the Laborites of mortgaging New Zealand's future by unprecedented overseas borrowing to offset a large trade deficit.

Although Labor was voted in with a massive parliamentary majority in 1972, the economic turndown has left the government open to charges of mismanagement. Rowling is defending Labor's general economic policies on the grounds that they have successfully maintained a high level of employment, and he has made no apologies for overseas borrowing.

Foreign policy has figured only tangentially in the campaign. Both parties are committed to maintaining close ties with the US under the ANZUS alliance, although a National government might be more inclined to avoid the irritants that have cropped up under the Labor government. Muldoon, for example, has said he would lift the government ban on port calls by nuclear-powered vessels. He has also indicated that he would drop Rowling's call for a South Pacific nuclear-free zone closed to vessels carrying nuclear arms. Both of these Labor policies have been depicted by the Nationals as limiting military cooperation under the ANZUS alliance.

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MALAYSIA

Prime Minister Razak has followed through on his threat to arrest his chief political rival, Selangor state chief minister Harun, on corruption charges.

Free on bail until the case is brought to court on January 12, Harun says he welcomes a public airing of the charges against him.

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Even if the government wins its case, however, public recriminations between Harun and Razak could cause considerable strain within the government.

Militant Malays in the ruling party's youth wing, which Harun heads, may organize street demonstrations that, considering ever-present Malay-Chinese tensions, could lead to racial incidents. Some 400 of Harun's hard-core supporters reportedly have entered Kuala Lumpur; they undoubtedly are being watched closely by internal security forces alerted by Razak.

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